

## Message Text

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12

ACTION EUR-25

INFO OCT-01 IO-12 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-03 PRS-01 USIA-12 AGR-20 RSR-01 /183 W

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R 171033 Z MAY 73

FM AMEMBASSY BELGRADE  
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INFO USMISSION OECD PARIS  
USMISSION EC BRUSSELS  
USMISSION NATO BRUSSELS  
USMISSION GENEVA  
AMCONSUL ZAGREB UNN

UNCLAS BELGRADE 2163

E. O. 11652: N/ A

TAGS: EFIN, YO

SUBJECT: NATIONAL BANK APPROVES CONVERSION SHORT- TERM CREDITS  
INTO LONG- TERMS LOANS

REF: BELGRADE 1731

SUMMARY: NATIONAL BANK DECISION PROVIDED FOR CONVERSION OF  
\$7.8 BILLION ND IN SHORT- TERM CREDITS EXTENDED TO COMMERCIAL  
BANKS INTO LONG- TERM, LOW- INTEREST LOANS REPAYABLE BEGINNING  
1978. DECISION IS REGARDED AS MAJOR STEP TOWARDS RESTORING MUCH-  
NEEDED LIQUIDITY TO ECONOMY. END SUMMARY.

1. IN MAJOR LIQUIDITY MOVE APPROVED BY FEDERAL EXECUTIVE COUNCIL,  
NATIONAL BANK PASSED DECISION CONVERTING 7.8 BILLION ND (\$459-  
MILLION) IN OUTSTANDING COMMERCIAL BANK SHORT- TERM CREDITS INTO  
LONG- TERM LOANS. LONG- TERM LOANS FROM NATIONAL BANK TO COMMERCIAL  
BANKS ARE REPAYABLE BEGINNING 1978, ARE FOR TWENTY- FIVE YEARS  
DURATION, AND CARRY ANNUAL INTEREST RATE OF 3 PERCENT PAYABLE TO  
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NATIONAL BANK. INTEREST RATE FOR PRODUCTIVE ENTERPRISES WILL BE AT 4 PERCENT.

2. IN ADDITION TO FOREGOING, REPUBLIC AND PROVINCE NATIONALS BANKS HAVE REACHED AGREEMENT TO CONVERT SIMILAR SHORT- TERM CREDITS INTO LONG- TERM LOANS UP TO AMOUNT OF PRIMARY MONETARY ISSUE AVAILABLE TO THEM AS OF DECEMBER 31, 1972 (3.2 BILLION ND OR \$188- MILLION). MODALITIES, I. E., WHO GETS WHAT, WILL BE DETERMINED BY REPUBLIC NATIONAL BANKS IN COORDINATION WITH RESPECTIVE REPUBLIC GOVERNMENTS.

3. CONVERSION BY NATIONAL BANK OF 7.8 BILLION ND IN SHORT- TERM CREDITS DIVIDED BETWEEN EXPORT AND EXPORT- RELATED PRODUCTION (2.7 BILLION ND OR \$159- MILLION); WHEAT AND WHEAT RESERVES 719 MILLION ND OR \$42.3- MILLION); RAW MATERIAL IMPORTS FROM CLEARING CURRENCY AND DEVELOPING COUNTRIES (702 MILLION ND OR \$41.3- MILLION); SUNFLOWER, SUGARBEET AND TOBACCO (551.5 MILLION ND OR \$32.4- MILLION); YUGOSLAV RAILWAYS (280 MILLION ND OR \$16.5- MILLION); AND OTHER SPECIFIC CREDITS (2.86 BILLION ND OR \$168- MILLION).

4. NONE OF THE CONVERTED CREDITS ARE FOR USE BY FIRMS IN WHICH BANKRUPTCY PROCEEDINGS ARE UNDERWAY.

5. COMMENT: THIS MOVE BY THE NATIONAL BANK WILL IMPROVE THE LIQUIDITY POSITION OF COMMERCIAL BANKS AND PRODUCTIVE ENTERPRISES IF BANKS ALSO CONVERT SHORT- TERM OBLIGATIONS OF BUSINESS ENTERPRISES OR INCREASE LENDING OPERATIONS TO SUCH ENTERPRISES. WE UNDERSTAND THAT THE ADDED LIQUIDITY WILL BE DIRECTED BY COMMERCIAL BANKS TO THE PRODUCTIVE SECTOR OF THE ECONOMY AND MAY THEREBY HAVE A DAMPENING EFFECT ON PRICES IN THE MEDIUM TERM. ONE OF THE PRINCIPAL EFFECTS OF THE CONVERSION WILL BE TO REDUCE INTEREST COST OF PRODUCTIVE ENTERPRISES; TO A LARGE EXTENT ENTERPRISES WITH SHORT TERM CREDITS FROM COMMERCIAL BANKS HAD BEEN ROLLING OVER THESE CREDITS AT 8-9 PERCENT INTEREST. THE NET MONETARY IMPACT OF THE NATIONAL BANK MOVE IS THEREFORE NOT CLEAR. ALSO, WE UNDERSTAND THAT THE NATIONAL BANK HAS STIPULATED NEW CONDITIONS FOR REDISCOUNTING BY COMMERCIAL BANKS AS WELL AS NEW CONDITIONS ON SHORT- TERM COMMERCIAL CREDITS.

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